

Exhibit No.:
Issue: Prepayments
Witness: Wayne Hodges
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case Nos.: GR-2017-0215 and
GR-2017-0216
Date Testimony Prepared: October 17, 2017

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

WAYNE HODGES

SPIRE MISSOURI, INC., d/b/a SPIRE

**LACLEDE GAS COMPANY AND MISSOURI GAS ENERGY
GENERAL RATE CASE**

CASE NOS. GR-2017-0215 and GR-2017-0216

*Jefferson City, Missouri
October 2017*

1 Q. Does Staff agree that these costs should be included as a prepayment for LAC
2 and MGE?

3 A. No. Staff examined each prepayment proposed by LAC and MGE on a month-
4 by-month basis. For the test year and update periods ordered in this proceeding, Staff
5 identified costs that should not be included in prepayments. For instance, LAC includes
6 Prepaid Taxes in its prepayments, and both LAC and MGE include property taxes that are
7 under appeal and dues paid to Missouri Energy Development Association (“MEDA”) and
8 Chamber of Commerce organizations. It is Staff’s position that none of those costs are
9 appropriately included in utility rate base as prepayments. Staff excluded costs related to
10 MEDA and the Chamber of Commerce from prepayments because they do not provide a
11 direct benefit to ratepayers and they are not necessary for the provision of safe and adequate
12 utility service. Staff excluded prepaid taxes and property taxes that are under appeal because
13 they are not actual prepayments.

14 **PREPAYMENTS**

15 Q. What types of dues is Staff proposing to exclude from LAC and MGE’s
16 prepayments in this rate case?

17 A. Staff is proposing to eliminate payments made to the Missouri Chamber
18 Foundation, the St. Louis Regional Business Council, MEDA, and the Kansas City Chamber
19 of Commerce, consistent with Staff’s recommendation to eliminate these costs as part of its
20 recommended adjustments for Lobbying and Dues and Donations discussed on page 120
21 and 126 of its Cost of Service Report, filed on September 8, 2017. These costs do not
22 provide a direct benefit to ratepayers and are not necessary for the provision of safe and
23 adequate service.

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1 Q. What types of taxes are identified by LAC as prepaid taxes?

2 A. According to Staff's discussion with LAC and MGE personnel, Gross Receipt
3 Taxes ("GRT") are reported as Prepaid Taxes in LAC's prepayment detail that was provided
4 in response to Staff's Data Request No. 0118.

5 Q. Explain why Staff recommends that GRT should be eliminated from LAC's
6 prepayments.

7 A. LAC pays GRT (commonly referred to as franchise taxes) for the right to
8 do business in the municipalities in which it operates. For example, LAC pays the
9 City of St. Louis a monthly 10% GRT based on non-residential gross revenues and a monthly
10 4% GRT based on residential gross revenues. The taxes are paid to the city of St. Louis the
11 month after the revenues are collected from LAC's customers.¹

12 It is Staff's position that GRT is collected from customers in advance of payments
13 made to cities and municipalities. For this reason, Staff included GRT in LAC's
14 Cash Working Capital as a payment in the arrears. Therefore, GRT does not qualify as
15 a prepayment.

16 Q. Explain why Staff recommends that property taxes that are under appeal
17 should be eliminated from LAC and MGE's prepayments.

18 A. Property taxes are assessed on property owned as of January 1 of each year and
19 are typically not due to the various taxing authorities until December 31 of that same year.
20 The exception is property taxes assessed in the state of Kansas, where one-half of the year's
21 property taxes are due at December 31 of the year assessed and the other half are not due until

¹ City of St. Louis Municipal Code, Chapter 23.36
https://library.municode.com/mo/st._louis/codes/code_of_ordinances

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1 late in the first quarter of the following year. Since property taxes are assessed at the
2 beginning of the year and paid at the end of the same year, they are paid in arrears on a
3 calendar year basis. LAC and MGE are also collecting revenue for these taxes that are
4 included in their base rates. The fact that LAC and MGE are appealing those tax amounts
5 does not make them a prepayment. They simply have a dispute with the taxing authority
6 about the amount of property taxes owed by LAC and MGE for a given year.

7 Q. Should property taxes under appeal be included in rate base?

8 A. No. The amounts paid by LAC and MGE for property taxes under appeal
9 should not be given rate base treatment because shareholder investments are not involved.
10 LAC and MGE are simply disputing the amount of taxes paid. Therefore, customers should
11 not be responsible for providing a rate of return to LAC and MGE on property taxes that are
12 under appeal.

13 Q. Does the Federal Energy Regulatory Commission (“FERC”) Uniform System
14 of Accounts (“USOA”) support disputed costs by a gas utility as a prepayment?

15 A. No. The USOA defines a prepayment as follows;

16 This account shall include payments for undelivered gas and other
17 prepayment of rents, taxes, insurance, interest, and like disbursements
18 made prior to the period to which they apply.

19 Although the USOA includes taxes in the definition of prepayments, property taxes are not
20 prepayments by virtue of how the taxes are assessed at the beginning of the year and paid in
21 arrears at the end of the year. The USOA also does not support disputed costs such as
22 property taxes that are under appeal as a prepayment. Therefore, it is Staff’s position that
23 property taxes that are appealed by LAC and MGE do not qualify as prepayments and should
24 be excluded from rate base.

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1 Q. Does Mr. Keathley support any other costs as a prepayment that Staff
2 recommends be removed?

3 A. Yes. Staff has identified three miscellaneous costs that should be excluded
4 from prepayments because those expenses are no longer being incurred by LAC and MGE.
5 They include Debt Transaction Cost, JP Morgan Line of Credit Fees, and Moody's Services.
6 Therefore, it is Staff's position that those costs be excluded from prepayments.

7 Q. Does that conclude your rebuttal testimony?

8 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)
Request to Increase Its Revenues for) Case No. GR-2017-0215
Gas Service)

In the Matter of Laclede Gas Company)
d/b/a Missouri Gas Energy's Request to) Case No. GR-2017-0216
Increase Its Revenues for Gas Service)

AFFIDAVIT OF WAYNE HODGES

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW WAYNE HODGES and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Rebuttal Testimony; and that the same is true and correct according to his best knowledge and belief.


Further the Affiant sayeth not.



WAYNE HODGES

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Jefferson City, on this 16th day of October, 2017.



Notary Public

BEVERLY M. WEBB
My Commission Expires
April 14, 2020
Clay County
Commission #12484070